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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

OCT 30 2007

MIKE GLEASON - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
MIDVALE TELEPHONE EXCHANGE, INC.
FOR FINANCING APPROVAL.

DOCKET NO. T-02532A-07-0102

DECISION NO. 69953ORDER

Open Meeting
October 23 and 24, 2007
Phoenix, Arizona

BY THE COMMISSION:

On February 16, 2007, Midvale Telephone Exchange, Inc. ("Midvale" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for authorization to obtain \$10,364,820 of new debt financing from the U.S. Department of Agriculture Rural Utilities Service ("RUS"). Midvale's application stated that the purpose of the loan is to create three new service areas serving 441 proposed subscribers in the Company's Millsite exchange, 400 new subscribers in its Granite Mountain exchange, and system improvements to all of the Company's thirteen exchanges.

On April 23, 2007, Midvale filed an amended application, stating that RUS has approved its application for financing in the amount of \$12,145,036, and requesting an increase in its proposed debt financing from \$10,364,820 to \$12,145,036.

On July 24, 2007, the Commission's Utilities Division Staff ("Staff") filed its Staff Report in this matter, recommending approval of the financing request.

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1
2 1. The Commission granted Midvale a Certificate of Convenience and Necessity
3 ("CC&N") in Decision No. 58048 (October 29, 1992). Under authority granted by the Commission,
4 Midvale currently provides service to a number of communities in Arizona, in five exchanges, with a
5 total of approximately 1,438 subscribers as of December 31, 2006. Its service area includes portions
6 of Cochise, Gila, Graham, Maricopa, Pima, Pinal and Yavapai counties in Arizona.

7 2. On February 16, 2007, Midvale filed an application with the Commission for
8 authorization to obtain \$10,364,820 of new debt financing from RUS.

9 3. On April 23, 2007, Midvale filed an amended application, requesting an increase in its
10 proposed debt financing to \$12,145,036.

11 4. Between May 28, 2007 and May 31, 2007, the Company published notice of its
12 amended application in newspapers of general circulation within its Arizona service territory.

13 5. On July 24, 2007, Staff filed its Staff Report in this matter, recommending approval of
14 the financing request.

15 6. No comments to the Staff Report were filed.

Loan Terms

17 7. The RUS loan terms provide for a five percent rate of interest and a repayment period
18 of 15 years, with all repayments made during the first two years applied to interest only.

19 8. The terms of the RUS loan require the debt facility to be drawn down in installments,
20 with each drawdown contingent upon completion of a project phase and the commencement of the
21 next phase of construction.

22 9. A portion of the loan proceeds will be used to refinance the balance of an existing
23 Rural Telephone Finance Cooperative short-term credit facility.

Engineering Analysis

25 10. Staff analyzed the projects Midvale proposes to finance with the loan proceeds.
26 Staff's analysis indicates that the Company's planned fiber local loop facilities could result in
27 significant long term maintenance cost reductions.
28

1 11. Staff also determined that the Company's proposed fiber-to-the-home infrastructure
2 will provide it with the capability to offer broadband internet access at speeds higher than either DSL
3 or cable modem services, and to potentially offer video services, including high-definition television.
4 Staff states that fiber networks have the advantage of ease of upgrades to the system and that service
5 improvements can be accomplished with software driven computer systems, resulting in fewer costly
6 dispatches.

7 12. Staff found that the Company's infrastructure design is consistent with engineering
8 systems being deployed by other local exchange carriers.

9 13. Staff's preliminary review of the proposed projects shows that Midvale's cost
10 estimates fall within a range of reasonableness. No ratemaking treatment should be inferred from
11 Staff's analysis.

12 14. Staff found that Midvale's projections for growth and the resulting additional network
13 requirements identified in its application will result in modernization and expansion of its network.
14 No "used and useful" determination regarding Midvale's planned facilities should be inferred from
15 findings in this proceeding.

16 15. The Company's engineering designs and equipment selections must receive prior RUS
17 approval before disbursement of loan proceeds, and RUS requires that disbursed proceeds be used for
18 the purpose specified in Midvale's RUS loan application. RUS does not require Midvale to draw the
19 entire loan amount if its business objectives change.

20 **Financial Analysis**

21 16. Staff's financial analysis to determine the effects of the proposed financing used the
22 Company's financial results for the year ended December 31, 2006, and the assumption that the
23 Company will draw the entire debt amount of \$12,145,036 immediately.¹

24 17. Staff's analysis indicates that the proposed debt will result in a pro forma debt service
25 coverage ratio ("DSC")² of 0.91 and a times interest earned ratio ("TIER")³ of 0.81.

26
27 ¹ This assumption is conservative, as the terms of the RUS loan require the debt facility to be drawn down in installments,
28 with each drawdown contingent upon completion of a project phase and the commencement of the next phase of construction.

1 18. Staff states that although the results of Staff's analysis in this case is less than 1.0 for
2 both DSC and TIER, it appears that Midvale would have the ability to make interest and principal
3 repayments on the proposed debt amounts. Staff points out that the terms of the loan do not allow the
4 Company to draw the entire amount of the requested debt at the inception of the loan agreement. In
5 addition, Staff states that the projects proposed to be financed would increase Midvale's customer
6 base, and that the impact of projected growth on operating results could in turn positively enhance
7 Midvale's ability to make principal and interest payments on the proposed debt.

8 **Consumer Services and Compliance Issues**

9 19. Midvale is in good standing with the Commission's Corporations Division.

10 20. From January 1, 2004 through March 6, 2007, the Commission's Utilities Division
11 database shows seven complaints, nine inquiries and one opinion, all of which have been resolved.

12 **Staff Recommendations**

13 21. Staff states that its analysis indicates that Midvale's proposal will enhance its
14 networks as well as its ability to accommodate forecasted growth within its certificated territory.
15 Based on its analysis, Staff has concluded that Midvale's financing proposal is consistent with sound
16 financial practice and is in the public interest.

17 22. Staff recommends that the Commission approve Midvale's proposal to incur debt
18 financing in the amount of \$12,145,036 from RUS.

19 23. Staff further recommends that the Commission authorize Midvale to engage in any
20 transactions and to execute or cause to be executed any documents so as to effectuate the
21 authorizations requested with the application.

22 24. Staff further recommends that Midvale provide to the Commission, within sixty days
23 of the loan package closing, a copy of all notes and other documents memorializing the authorized
24 transaction(s).

25 **Conclusion**

26
27 ² DSC represents the number of times internally generated cash will cover required principal and interest payments on
long-term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations.

28 ³ TIER represents the number of times earnings will cover interest expense on long-term debt. A TIER greater than 1.0
means that operating income is greater than interest expense.

1 25. It is reasonable, consistent with sound financial practices, and in the public interest to
2 grant Midvale the requested financing authority to fund its proposed network improvements.

3 26. Staff's recommendations are reasonable and should be adopted.

4 **CONCLUSIONS OF LAW**

5 1. Midvale is a public service corporation within the meaning of Article XV of the
6 Arizona Constitution and A.R.S. §§ 40-301 and 40-302.

7 2. The Commission has jurisdiction over Midvale and the subject matter of the request.

8 3. Notice of the financing was provided in accordance with law.

9 4. Staff's recommendations set forth in Findings of Fact Nos. 22-24 are reasonable and
10 should be adopted.

11 5. The financing approved herein is for lawful purposes within Midvale's corporate
12 powers, is compatible with the public interest, with sound financial practices, and with the proper
13 performance by Midvale of service as a public service corporation, and will not impair Midvale's
14 ability to perform that service.

15 6. The financing approved herein is for the purposes set forth in Midvale's request filed
16 on February 16, 2007 and amended on April 23, 2007, is reasonably necessary for those purposes,
17 and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to
18 income.

19 **ORDER**

20 IT IS THEREFORE ORDERED that Midvale Telephone Exchange, Inc. is hereby authorized
21 to incur \$12,145,036 of new debt financing from the U.S. Department of Agriculture Rural Utilities
22 Service for the purposes stated in the application.

23 IT IS FURTHER ORDERED that Midvale Telephone Exchange, Inc. is hereby authorized to
24 engage in any transactions and to execute or cause to be executed any documents so as to effectuate
25 the authorizations requested with the application.

26 IT IS FURTHER ORDERED that such authority is expressly contingent upon Midvale
27 Telephone Exchange, Inc.'s use of the proceeds for the purposes set forth in its application.

28

1 IT IS FURTHER ORDERED that approval of the financing set forth herein does not
 2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
 3 proceeds derived thereby for purposes of establishing just and reasonable rates.

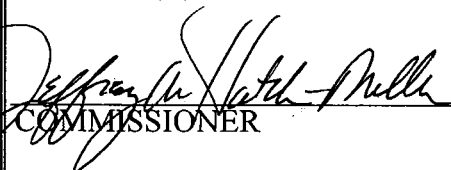
4 IT IS FURTHER ORDERED that Midvale Telephone Exchange, Inc. shall file with the
 5 Commission's Docket Control, as a compliance item in this docket, within sixty days of the loan
 6 package closing, the notes and other documents memorializing the authorized transaction(s).

7 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

8 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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 10 
 11 CHAIRMAN


 COMMISSIONER

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 13 COMMISSIONER

COMMISSIONER


 COMMISSIONER

14
 15 IN WITNESS WHEREOF, I, DEAN S. MILLER, Interim
 16 Executive Director of the Arizona Corporation Commission,
 17 have hereunto set my hand and caused the official seal of the
 Commission to be affixed at the Capitol, in the City of Phoenix,
 this 30th day of Oct., 2007.

18 
 19 DEAN S. MILLER
 20 INTERIM EXECUTIVE DIRECTOR

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 23 DISSENT _____

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 26 DISSENT _____

27 TW:db
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2 SERVICE LIST FOR:

MIDVALE TELEPHONE EXCHANGE INC.

3 DOCKET NO.:

T-02532A-07-0102

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